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Startling jump in California foreclosures

By Carolyn Said

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The housing market's vicious downward cycle wreaked more havoc in 2007, as record numbers of people in California and the Bay Area lost their homes to foreclosure, according to a report released Tuesday.

Coming on the heels of statistics showing home sales at record lows and prices slumping, the foreclosure information was a fresh reminder that the real estate malaise directly hurts many homeowners, particularly those with risky subprime mortgages. California, where home prices saw double-digit appreciation during the post-millennium real estate frenzy, is now seeing equally dramatic increases in foreclosures. The nation's foreclosure crisis has spread to the point where many analysts say the country is either in recession or on the brink. The Federal Reserve's major interest-rate cut on Tuesday underscored how seriously the government views the situation.

Lenders repossessed 84,375 California houses and condos in 2007, up more than sixfold from 12,672 in 2006, according to DataQuick Information Systems, a La Jolla (San Diego County) research firm.

In the fourth quarter, 31,676 residences in California were foreclosed upon. That was a 421.2 percent increase from 6,078 in the year-ago quarter.

In the Bay Area, a total of 11,530 homes were lost to foreclosure in 2007, almost seven times the 1,651 foreclosures in 2006. Contra Costa had the most foreclosures, with 4,003 residences repossessed - or 13.2 out of every 1,000 homes and condos. Smaller Solano County had a higher rate per residences, with 1,753 homes repossessed, representing 14.2 out of every 1,000 homes and condos.

For the fourth quarter, Bay Area foreclosures rose 482.5 percent to 4,573, compared with 785 in the year-ago quarter. Again, Contra Costa County, with 1,558 foreclosures, up 533.3 percent from a year ago, had the most homes repossessed, followed by Alameda County with 1,026 (a 514.4 percent increase) and Solano County with 704 (up 528.6 percent).

"It's getting worse," said Andrew LePage, an analyst with DataQuick. "Depreciation continues and makes it harder for more and more people when they fall behind in their payments to either sell or refinance their way out of trouble."

A separate DataQuick report released last week showed that home sales in December were down 43.2 percent in the Bay Area, while the median price fell \$32,000, or almost 5 percent.

The rising tide of foreclosures is certain to exacerbate the market situation, experts said. After a lender forecloses on a home, it puts it up for sale, often at a discount.

"More and more of these homes are getting dumped on the market," said Christopher Thornberg, principal with Beacon Economics, a consulting firm. "That puts more downward pressure on the market; that leads to even more people getting foreclosed on, and so on and so forth."

The numbers of foreclosures are huge compared with current real estate sales. For example, in Contra Costa County, the 1,558 foreclosures in the fourth quarter are almost equal to the 1,589 homes that were sold in the same time period.

California had the most foreclosures since DataQuick began tracking them in 1988 and more than double the previous peak of 15,418 foreclosures in the third quarter of 1996.

The foreclosure crisis is a hot-button political issue as its fallout includes multibillion-dollar losses on Wall Street; widespread job loss in industries such as finance, construction and real estate; and the continuing downward housing spiral. Politicians and regulators have been scrambling to find solutions, such as loan modifications, in which lenders agree to temporarily or permanently freeze interest rates at lower levels for struggling homeowners.

But many individual cases show how intractable the problem can be.

Edward Payne, 70, and his wife Waveline, 71, have owned their four-bedroom San Pablo house since 1965. The tidy home has several cabinets crammed with the china and crystal bells that Waveline collects. Flowered sheets cover the sofas. The Paynes are raising their grandchildren, ages 12, 13 and 16, because their daughter, the children's mother, "took off," Edward Payne said.

After multiple refinances, their monthly payments are now \$3,800 - even though their household income is just \$4,000 a month from Social Security and a pension.

Through the years, the couple used their home equity to supplement Payne's salary as a shipping clerk and "pickler" at a galvanizing plant in Berkeley. As they raised three daughters, when they

needed money for home repairs, family emergencies or items such as a new car, they refinanced the home and took out cash.

In April 2006, they refinanced again, bringing their total debt on the house to \$505,000. Payne said he thinks he was overly trusting of the family friend who arranged the refinance and now won't return calls.

The refinance paid off credit cards and gave the Paynes cash for a new roof, fresh paint and other needed repairs. They tapped into that cash to help pay the new mortgage of \$3,800 a month. But eventually it ran out, and they have not made a mortgage payment in three months. The mortgage is scheduled to reset \$738 higher in April.

Meanwhile, since home values have slumped, the house is now worth about \$465,000, they say.

Payne said he thought he would be able to refinance his way out of trouble, as he has done before.

"I didn't realize the housing market would fall," he said. "It's hard to sleep at night," he said. "I just lay there, just thinking about it. If it wasn't for the grandkids, it wouldn't be so bad. We could find a place for just Waveline and me."

DataQuick's LePage said it's unknown how many of the foreclosures are in situations like the Paynes', in which longtime homeowners drove up their debt through cash-out refinancing.

"People who heavily tapped their equity are now finding that they're underwater; they owe more than they can get for their homes," he said.

In addition to skyrocketing foreclosures, mortgage default notices - sent by lenders when homeowners are several months behind on payments - also hit record highs. Default notices are the first step of the foreclosure process.

Statewide, 254,824 default notices were filed in 2007, up from 104,977 in 2006. In the fourth quarter, Californians received 81,550 default notices, up 114.6 percent from 37,994 in the fourth quarter of 2006. It was the most defaults since DataQuick began tracking them in 1992.

In the Bay Area, 37,557 notices of default were filed in 2007, up from 14,654 in 2006. Default notices in the fourth quarter were up 136.9 percent from the year-ago quarter, with 12,704 households receiving them. Year-to-year increases in default notices ranged from 84.4 percent in San Mateo County to 199.7 percent in Sonoma County. Contra Costa had the most notices by number, with 3,805, followed by Alameda with 2,573 and Santa Clara with 2,162.

Another gloomy statistic showed that default notices are increasingly more likely to turn into foreclosures. Homeowners can resolve defaults by catching up on their payments, refinancing or selling the house for what they owe. Only 41 percent of homeowners in default were able to pursue these solutions, DataQuick said, compared with 71 percent a year ago.

DataQuick said most of the loans that went into default in the quarter were originated between August 2005 and August 2006, during the height of the subprime loan frenzy.

G.U. Krueger, chief economist at IHP Capital Partners, an Irvine venture capital fund investing in residential real estate, said he thinks that statistic holds out some hope for an end to the foreclosure escalation.

"The increases in foreclosures might be limited to certain vintage of years that were affected by really sketchy and funky financing, such as part of 2004, and 2005 and 2006," he said. "That eventually will have to taper off."

On a loan-by-loan basis, mortgages were most likely to go into default in Merced, San Joaquin and Stanislaus counties, DataQuick said. They were least likely to go into default in San Francisco, Marin and San Mateo counties.